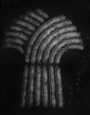
SASKATCHEWAN MINERALS

1988 ANNUAL REPORT



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SASKATCHEWAN MINERALS

ANNUAL REPORT

For The Year Ended
December 31, 1988

LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 31, 1989

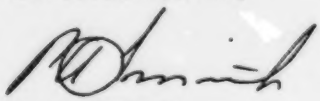
To Her Honour
Sylvia O. Fedoruk, O.C., S.O.M.
Lieutenant Governor of the
Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of Saskatchewan Minerals for the year ended December 31, 1988, in accordance with The Crown Corporations Act, 1978. The financial statements are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Madam,

Your obedient servant,



Patricia A. Smith
Minister Responsible
Saskatchewan Minerals

SASKATCHEWAN MINERALS

BOARD OF DIRECTORS

The Honourable Patricia A. Smith
Chairman of the Board
Regina, Saskatchewan

Ian Disbery
Corporate Secretary
Regina, Saskatchewan

Robert Berry
Central Butte, Saskatchewan

Richard Gleim
Chaplin, Saskatchewan

Martin Chabot
Zenon Park, Saskatchewan

Merlin Materi
Fox Valley, Saskatchewan

SASKATCHEWAN MINERALS

1988 OPERATIONS REVIEW

1988 Operations

The sodium sulphate division of Saskatchewan Minerals conducted normal operations during the months of January and February. Volumes sold during this period were similar to those sold during the same period in 1987: 21,904 tons in 1988 compared with 23,611 tons in 1987. However, prices continued to be affected by strong downward pressure in 1988. Supplies of raw materials in the sodium sulphate division were adequate for projected 1988 sales. The peat moss division operated until March 24, 1988. Sales in this division were lower than in 1987, with total sales for the period being 154,981 bales in 1988 compared with 240,247 bales during the same period in 1987.

The Divestiture

Early in 1988 the assets relating to the two operating divisions of Saskatchewan Minerals were divested. On March 1, the operating assets relating to the sodium sulphate division were sold to Kam-Kotia Mines Ltd., of the Dickenson Group of Companies. The operating assets of the peat moss division were sold to Premier Sask Inc., a wholly-owned subsidiary of Premier Cdn Enterprises Ltd., on March 24, 1988.

The assets belonging to the sodium sulphate division of Saskatchewan Minerals were sold to Kam-Kotia Mines Ltd. for the amount of $12.5 million. Assets included in the sale were the accounts receivable, inventories, prepaid expenses, land, buildings, machinery, and sodium sulphate reserves. The sale represented all of Saskatchewan Minerals' interests in the Chaplin plant, the Ingebrigt Lake plant, the Bishopric plant, the Sybouts plant and bentonite leases. The sale price net of adjustments was less than the book value of the assets sold, therefore Saskatchewan Minerals recorded a book loss on the sale in the amount of $4.6 million.

The assets of the peat moss division which were sold to Premier Sask Inc. were the accounts receivable, inventories, equipment, buildings, lands, and lease property. The sale price of $3.4 million was $0.5 million less than the book value of the assets recorded by Saskatchewan Minerals, after certain adjustments.

The proceeds from each sale exceeded the appraised value of the respective divisions.

Post-Divestiture

Cash received from the sale of Saskatchewan Minerals was first used to pay the outstanding accounts payable of the Crown corporation. The remainder of the cash received was remitted to the Crown Investments Corporation of Saskatchewan (CIC) for the following intercompany transactions:

(1) repayment of long-term debt owing in the amount of $3 million plus interest;

(2) repayment of other loans in the amount of $5 million plus interest;

(3) repayment of equity advances of $3.4 million; and

(4) payment of dividends of $1.9 million.

Saskatchewan Minerals was effectively inactive at December 31, 1988 and had no assets, operations or employees at that time. It is anticipated that the Crown corporation will be wound up in 1989.

SASKATCHEWAN MINERALS

Financial Statements for the Year Ended December 31, 1988

BURROUGHS, WEBER & PARTNERS
Chartered Accountants
SWIFT CURRENT, SASKATCHEWAN

BW

Burroughs, Weber & Partners

Chartered Accountants

R.J. Weber, B. Comm., F.C.A.
E.G. Gross, C.A.
A.E. Downs, B. Comm., C.A.
E.K. Heppner, C.A.
A.E. Lightfoot, B. Comm., C.A.
R.B. Kane, B. Comm., C.A.
G.K. Braaten, B. Comm., C.A.

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Area Code 306

AUDITORS' REPORT

To the Members of the Legislative Assembly
Of the Province of Saskatchewan

We have examined the Statement of Financial Position of Saskatchewan Minerals as at December 31, 1988 and the Statements of Income (Loss) and Retained Earnings and Changes in Financial Position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Burroughs, Weber + Partners
Chartered Accountants

January 23, 1989

SASKATCHEWAN MINERALS

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 1988

	1988	1987
ASSETS		
CURRENT ASSETS		
Cash	$ -	$ 1,231,628
Accounts receivable	-	3,084,005
Inventories	-	3,880,233
Prepaid expenses	-	147,204
	-	8,343,070
PROPERTY, PLANT AND EQUIPMENT	-	12,051,079
DEFERRED CHARGES, NET OF AMORTIZATION	-	6,127
	$ -	$ 20,400,276
LIABILITIES AND PROVINCE'S EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ -	$ 1,938,421
Due to Crown Investments Corporation	-	5,000,000
Current portion of long-term debt	-	3,000,000
	-	9,938,421
PROVINCE OF SASKATCHEWAN'S EQUITY		
Advances [Note 2]	-	3,400,000
Retained earnings	-	7,061,855
	-	10,461,855
	$ -	$ 20,400,276

See accompanying notes

SASKATCHEWAN MINERALS

STATEMENT OF INCOME (LOSS) AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31

	1988	1987
REVENUE		
Sales of product	$ 2,661,791	$ 17,322,431
Other	357,491	145,380
	3,019,282	17,467,811
EXPENSES		
Operating costs	2,019,119	12,053,618
Selling and administration	629,205	2,512,384
Depreciation and amortization	222,166	1,337,285
Interest [Note 3]	304,844	955,348
	3,175,334	16,858,635
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(156,052)	609,176
Extraordinary items [Note 4]	(5,032,116)	-
NET INCOME (LOSS)	(5,188,168)	609,176
Retained earnings at beginning of year	7,061,855	6,452,679
	1,873,687	7,061,855
Less dividends paid	1,873,687	-
RETAINED EARNINGS AT END OF YEAR	$ -	$ 7,061,855

See accompanying notes

SASKATCHEWAN MINERALS

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31

	1988	1987
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Income (loss) before extraordinary items	$ (156,052)	$ 609,176
Charges to discontinued operations not involving cash		
Depreciation	216,039	1,299,256
Amortization of deferred charges	6,127	38,029
	66,114	1,946,461
Net change in non-cash working capital balances related to discontinued operations	(1,853,805)	414,704
Cash provided by (used in) operating activities	(1,787,691)	2,361,165
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES		
Purchase of property, plant and equipment	(50,000)	(154,306)
Cash flows resulting from sale of discontinued operations	13,879,750	-
Cash provided by (used in) investment activities	13,829,750	(154,306)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Payment of advances from Province of Saskatchewan	(3,400,000)	-
Repayment of long-term debt	(3,000,000)	(5,000,000)
Repayment of loans from Crown Investments Corporation	(5,000,000)	(250,000)
Payment of dividends	(1,873,687)	(472,913)
Loans from Crown Investments Corporation	-	5,000,000
Cash used in financing activities	(13,273,687)	(722,913)
INCREASE (DECREASE) IN CASH DURING THE PERIOD	(1,231,628)	1,483,946
CASH AT BEGINNING OF PERIOD	1,231,628	(252,318)
CASH AT END OF PERIOD	$ -	$ 1,231,628

See accompanying notes

SASKATCHEWAN MINERALS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1988

1. STATUS OF SASKATCHEWAN MINERALS

Saskatchewan Minerals was established by Order-in-Council 724 in 1945 with numerous amendments subsequent to that date. The Corporation continues under the provisions of The Crown Corporations Act, 1978. The accounts of the Corporation are consolidated in the annual financial statements of Crown Investments Corporation of Saskatchewan.

2. ADVANCES FROM CROWN INVESTMENTS CORPORATION

These advances represent the net capital contributions by Crown Investments Corporation of Saskatchewan to the Corporation since its inception. These advances are repayable at the discretion of Crown Investments Corporation of Saskatchewan and do not bear interest.

3. INTEREST EXPENSE

Long-term	$ 141,222
Bank charges and demand loan	163,622
	$ 304,844

4. EXTRAORDINARY ITEMS

During the period, the Corporation sold its peat moss operations to Premier Sask Inc. and its sodium sulphate operations to Kam-Kotia Mines Limited.

As a result, the Corporation has recorded accounting losses on the sale of the peat moss and sodium sulphate divisions as follows:

Book value loss on sale of peat moss division	$ (460,804)
Book value loss on sale of sodium sulphate division	(4,571,312)
Extraordinary loss	$ (5,032,116)

5. RELATED PARTY TRANSACTIONS

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the balance sheet and are settled on normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

6. CONTINGENCIES

The Corporation is the defendant to an unresolved statement of claim. Management is of the opinion, as confirmed by legal counsel, that the claim can be successfully defended and accordingly no provision has been made in the accounts.

7. COMPARATIVE FIGURES

The corporation discontinued operations during the period as a result of the sales of the sodium sulphate and peat moss operations described in Note 4.

As a result, the 1987 comparative income figures represent a 12 month period and the 1988 income figures represent a period of discontinued operations including the winddown of the corporation.